



**Agentia Nationala
a Functionarilor Publici**

Support for Improvement in Governance and Management

A joint initiative of the OECD and the European Union, principally financed by the EU

Tackling Civil Service Pay Reform

**by Francisco Cardona
SIGMA**

Conference on Civil Service Salary Systems in Europe

Bucharest, 25 April 2007

Introduction

When undertaking a pay reform in the civil service, or in the public sector, two dimensions need to be taken into account: the substance and the process of the reform. Or, to put it in other words, the policy and the politics of the reform.

Policy: It is appropriate to link a salary reform to broader policies aimed at reforming the public administration or at least to policies aimed at reforming the public human resource management in the country. Within that context, should pay reform really be considered as a separate policy issue deserving a slot on the government agenda? Is there sufficient research to show that pay reform is required? If so, which kind of reform is required?

Politics: Equally important is to understand the politics of the reform. Salary reform emerges in a political environment and is intrinsically shaped by politics. It is a mistake to consider that the pay reform is mainly a technical problem that can be solved solely through technocratic devices. Pay reform is fundamentally a political issue implying political choices on allocation of public resources. Pay reform engenders winners and losers and this is what basically politics is about. More generally, technical solutions to civil service pay policy without due attention to a country's political context are not sustainable.

However, sometimes technocrats and consultants tend to think that governments can do whatever they want if they have the determination (also known as “political will” or “political commitment” or “leadership”). In the face of it, it is worth bearing in mind that politics is the “art of the possible” (also known as “political feasibility”).

Policies: Pay reform in a political environment

Ideologies on pay reform

There is a tendency to refer to ‘egalitarian’ approaches to pay reform as ‘political’ and therefore bad (it is said that they may denote uniformism and rigidity), while ‘neo-liberal’ approaches are ‘rational’ and therefore good (it is said that they may denote flexibility and individualisation). The key justification for this position comes with reference to the discrediting of egalitarian approaches by those pursuing a reinvigorated role of business-like efficiency in the public sector as opposed to regularity and predictability.

Whatever the rights and wrongs of each approach, it is important to recognise that the neo-liberal position is as political and ideological as an egalitarian stance. In most EU Member States the egalitarian approach is the most socially and politically accepted ideology of public sector salary design.

Outward looking: Limits to approximating public service salaries to the private sector

The underlying problem in civil service pay policy is how to value the work that produces the output of civil servants, given that such output is generally not marketable. One classical solution was the German establishment of the “*alimentationprinzip*” (the State shall cater the civil servants not only because of their work, but to guarantee them a personal and family life style according to their status in the civil service hierarchy¹, which also includes a decent pension).

In our days it is quite common to pursue civil service remuneration policies aimed at making compensation comparable (if not equal) to that for equivalent skills which are marketed, i.e., private sector pay. In fact, in many OECD countries low qualified public employees are paid more than their counterparts in the private sector for the only reason that trade unions have in them the bulk of their clientele.

¹ The alimentation principle of the German civil service dates back to Frederick the Great (1712-1786) who abolished the venality of public positions, a system whereby positions in the civil service could be sold and bought and the incumbent, as the “owner” of the position, had a right to keep for himself parts of the revenues generated by “his office”. Frederick the Great instituted a corps of civil servants remunerated according to their grade, not directly to the function performed. The state should guarantee sufficient salaries as well as pensions and family allowances for civil servants. According to the alimentation principle the remuneration should suffice for a decent live style for the civil servant and his family so that there was no incentive for the civil servant to take bribes or corrupt himself. This system at the same time introduced disciplinary measures and the possibility for citizens to complain about abuses or improper behaviour of civil servants. These complaints could lead a civil servant to lose his office.

Yet as a general consideration, it should be born in mind that the state cannot compete and will be never able to compete with the private sector on remuneration, among other reasons because markets are cyclical, with ups and downs, and they need to have a remuneration flexibility that the state cannot afford without putting at risk superior social values, such as equity, fairness and transparency. In addition, comparing public remuneration levels with the private sector is a thorny business, because choosing which sectoral branches of the private sector compare with those in the public sector is difficult and because the public sector usually shows fully declared, taxed salaries rather than non-taxed, hidden remuneration.

The state can only compete with the private sector by offering a transparent “decent remuneration”, established in law, which allows individuals to make a reasonable living standard, with a reinforced degree of job stability and tenure, a well-designed pension scheme, and a scrupulous respect for the social rights of public employees. Training and prospects for career development within the rather limited possibilities of the public administration could also help in attracting and retaining good professionals in the public sector. Finally, reducing or eliminating politicisation and patronage from the administration is also a helpful tool for competing with the private sector to attract good professionals.

Inward looking: Internal fairness of the remuneration system

It should not be overlooked that civil service remuneration policy should also be designed within the broad framework of public sector remuneration schemes and therefore should also compare overall with the broad public sector pay levels. This includes deciding either to establish a unitary pay system for the whole public sector or identifying specific groups of staff (e.g. primary teachers, senior public managers, policemen, judges or others) to which the government wants to give priority. The choice of priorities should be well justified and communicated.

A warning is necessary here: Sometimes in certain areas or in specific professions the state is confronted with competition from the private sector, making it difficult for the state to attract and retain good professionals. The immediate response of many public authorities is to selectively raise salaries for those professionals for whom the competition of the private sector is most acute. This policy has disastrous consequences in the medium term: firstly, it makes public salaries skyrocket in a never-ending spiral. Secondly, it represents only a short-sighted, makeshift solution to a large, complex problem. Finally, it not only does usually not work, but it aggravates the problem, as it risks “solving” a narrow part of the problem by causing greater damages to the system as a whole. Those damages will be more difficult to repair in the future. Examples of this are abundant. Reasons for selectively increasing salaries for tax inspectors, collectors of fines, EU issues-related people, and so on and so forth are easy to find but are not easy to justify in the face of other civil servants or public servants or in the face of public opinion at large. Such increases usually tarnish the reputation of those who have benefited from them and of those who decided to confer them. They also have de-motivating effects on those not benefited.

This is the reason why Sigma has always proposed a unified pay system for the civil service, which, if possible, should include the entire public service. It is crucial to prevent unjustified internal imbalances in salary treatment, not only for the sake of internal fairness of the system but also on pure managerial grounds. The more unified the pay system is, the easier it is to manage, for example for the purposes of staff redeployment, internal mobility, more efficient use of public resources, as well as more transparency. The more fragmented a system becomes, the more difficult it is to manage and the more difficult it will be to redress it in the future because vested interests will rapidly coalesce around the new status quo and easily become entrenched.

Reform Goals

In both these inward and outward looking exercises it is quite common that governments propound four broad, and relatively vague, policy objectives for their pay reform policies. It must be said that these public remuneration policy goals are rarely met in practice²:

- Equal pay for equal work performed under the same conditions;

² Salvatore Schiavo-Campo, Giulio de Tommaso and Amitabha Mukherjee: “Government Employment and Pay in Global Perspective: A Selective Synthesis of International facts, Policies and Experience”. 1997. Based on the same authors’ World Bank Policy Research Working Paper No. 1771.

- Differences in pay should be based on differences in work, responsibilities, and qualifications;
- Levels of government pay should be comparable to those in the private sector;
- Levels of government compensation should be periodically reviewed and systematically revised to assure the continued validity of the compensation plan.
- The pay scheme should be a HRM tool for fostering employees' motivation and increasing their performance

Government's Reform Programme

Governments usually have declaratory or programmatic documents containing policy statements. In the absence of that it is necessary to infer the government priorities. Whatever the case, governments, when confronted with the need to reform the remuneration scheme, may generally consider doing the following:

- Bring pay reform into line with government's overall reform objectives: Might the energetic pursuit of pay reform limit the government's capacity to promote other important reform goals? It might be that for certain states, pay reform simply should not be a priority in relation to the broader spectrum of reform issues that are concerned with good governance. The importance of this is that of ensuring consistency among reform policies by helping define the nature of the problem. The ways in which the *problem* is conceived and portrayed strongly shapes the likelihood of suitable policy responses.
- Set a target for capping overall pay spending: it might be expressed as a cost-affordable percentage of GDP. It has never been a pay strategy whose recommendations did not lead to a net increase in the wages bill. Certainly government needs to think about where the money to pay extra wages is going to come from (expected economic growth, expected increased tax revenues, decreasing expenditure by raiding another area, donor subvention...). If no supplementary sources of revenues are found, the only option left is to abandon the pay reform idea altogether.
- Decide what the reasons for reforming the pay scheme are and consistently determine the basis for pay and, in particular, either to compound an appropriate mix between the following elements or emphasise some of them:

Emphasis put on:	Denotes preference for:	Drawbacks:
Market-based pay	-Competing with the private sector -Attracting and retain staff	-Opaque arrangements -Dishonest dealings -Very difficult to attain
Pay based on grades	-Establishing a predictable career structure -Transparency -Equality -Disciplining bad performers	-Rigidity -Rewards theoretical competences, not actual performance -Managers are disinclined to use disciplinary means
Pay based on job content, possibly informed by job evaluation	-Rewarding the objective contents of the job position disregarding the position holder -Objectivity and fairness	-No job evaluation is objective (subjectivism and arbitrariness in evaluation always looms) -Job evaluation is expensive and long -In the end, political negotiations will supersede any fairness' notion
Pay based on individual performance (PRP)	-Rewarding well only those well-performing individuals -Increasing the power of managers and politicians	-Arbitrary evaluations and pay determination -Internal cooperation is doomed -Cumbersome red-tape in HRM -Personnel expenditure may skyrocket -Everybody is classified as "satisfactory" -PRP exacerbates nepotism and favouritism
Pay based on group performance	-Team building -Difficulties in applying individual PRP are hoped to be overcome through group PRP	-Free riders -Internal imbalances or unfairness within the group -Weak cooperation with other groups -Same drawbacks as individual PRP

- Establish an appropriate compression ratio between highest and lowest earners. An appropriate compression ratio is one that is politically acceptable in the country and depends on the dominant idea about social equality and also from the constitutional values standpoint. International organisations put an acceptable compression ratio at 6:1 or 7:1.
- Strike a balance between pay, other benefits (including pensions) and allowances. There also are non-tangible elements (social recognition, full and fair respect of social rights and benefits, training opportunities, self-esteem, and other fringe benefits). All these elements shall form part of the “attraction and retention” package.
- Consider the historical trajectory of the State and the existing forms of politics. These represent constraints and limits for the substance of the policy. In particular, it is recommendable to assess the level of patronage. The historical weigh of clientelism and patronage practices in managing the public employment should not be neglected. History can heavily condition reforms: for example, if a patronage culture is customary, performance-related pay is impracticable. Old practices and routines tend to linger.

Politics: Pay Reform Process³

A traditional technocratic approach has been to conceptualise politics as a constraint, as something intruding upon policies and causing disturbance and distortion on policy implementation. However, politics should also be viewed in terms of its enabling powers as well as a constraint. There should be more recognition of the extent to which states can use their political resources (e.g. information, organisation, ability to establish the political agenda, knowledge, symbolic power, etc.) to push reforms ahead. After all, civil service pay reform is not a necessity per se, but a reflection of political priorities.

In terms of process, the government should decide how it will combine getting expert technical advice and involving the necessary stakeholders, including trade unions and civil servants professional associations as well as IFI or EU (these can strongly influence government spending policies). However, success is never guaranteed. A policy reform might be altered or reversed at any stage in its life cycle by pressures and reactions from those who oppose it.

The process should effectively lead to the production of a pay reform strategy, which should include a final pay design and a strategy to achieve it. The groundwork might be done by a salary review commission, a consultant or a government committee on to which experts and stakeholders are co-opted, or by a combination of all these.

Certain tips on process are worth considering:

1. Taking external advice: Commission an action-oriented report from an external individual expert or from an expert commission to study and make proposals. Since the political factors that affect pay reform are largely the same ones that affect any governance reform, the report should have a broad scope. In doing this, the commission or consultant should refer to the experience of other similar countries. A salary review commission is useful, but at the risk of it taking on a life of its own, so that it produces results that are neither in line with government objectives nor even affordable. Indeed, consultants and expert commissions may come up with wild recommendations.
2. Taking internal advice: Alternatively, the Government might have an in-house process, co-opting experts and stakeholders as needed. A not unusual bias should be avoided against trade unions under the pretence that they make unrealistic demands for workers’ wages and cause pay reforms to be held-up or reversed. ‘Success’ in promoting pay reforms is thus mistakenly presented in many political discourses and policy narratives in terms of “resisting” or “vanquishing” trade unions.

³ A good illustration of a Pay Reform Process is the UN International Civil Service Commission document [Overview of the Pay and Benefits Review](http://icsc.un.org/resources/pdfs/general/payandbenefit.pdf), which gives an account of the reform process (2000-2006) of its pay and benefits system undertaken at the UN. The said document may be also found at <http://icsc.un.org/resources/pdfs/general/payandbenefit.pdf>.

3. Pay commissions usually do raise expectations. Whatever the nature of the exercise, the government will need to keep the process under its control. Government should avoid being put in the position of having to reject unaffordable recommendations after the exercise has raised public servants' expectations.
4. Analytical job evaluation is a quite sophisticated instrument for pay determination. It may produce credible technical results, but has two main drawbacks: 1) It is cumbersome and expensive (usually a specialised consultancy firm will be needed) and 2) it is only justified if the pay system that it produces is to stay fixed for a considerable number of years. But it is to be born in mind that negotiations with incumbents and trade unionists will usually have the last word on the evaluation, risking distorting the "rationality" of the exercise.

The process should reinforce the political leadership of the operation

A successful pay reform will be the outcome of sound interactions between technical methods and political factors. Pay reform efforts should be informed by an understanding of the political environment, but an understanding of the policy technical instruments– salary indexation, decompression, job evaluation and so on – is also needed. In pay reform, political leadership means managing well the interaction between technical instruments and political factors.

As said, the exercise of political leadership needs to manage well the interaction between political and technical issues. Subject to the specific recommendations arising from the pay strategy, and in the light of adequate political analyses, the exercise of political leadership should be made easier by offering politicians a technically well informed range of options on the following issues:

- Whether pay will be treated in isolation, or as an element in a broader HRM/staff motivation initiative or of a still broader governance reform.
- How much the government can currently afford to pay, and what it aspires to pay in the future
- Where the money will come from, whether from increased tax revenue, possibly a result of economic growth, or from redirecting existing money, or (in the short term) from donors
- Whether pay decisions should be decentralised or centralised
- Whether analytical or holistic job evaluation should be used or the old job classification kept
- Whether performance-related pay should be considered (and introduced?)
- Whether pay and allowances should be consolidated and monetised, or failing that, what the balance should be between the two
- Whether broad banding is to be considered (and introduced?)
- What account will be taken of comparisons with the private sector, or with other governments in the region, or with other parts of the national administration
- What the compression ratio should be
- Whether there should be a 'minimum wage'
- Whether some groups of public sector employees (for example, primary teachers or others) will be singled out for special treatment or 'salary enhancement'
- Whether and how salary reform should be somewhat linked to budget forecasting or future budget projections in order to assess its short term impact and its long term sustainability.

Conclusions

1. Pay reform should be part of a broader governance reform or a least of a wide civil service motivation or HRM reform. The urgency of a pay reform should be well assessed.
2. Pay reform is not principally a technocratic exercise, but a political endeavour on which the government should constantly keep the political leadership. Political leadership is reinforced if the interaction between political and technical issues is well managed.
3. The pay reform strategy should include the final pay design and objectives. The technical and methodological aspects of the reform need to be understood and used, but they should be put in the context of the politics of the reform.